



*Andrew Junkin, CFA, CIMA, CAIA
Managing Director*

March 31, 2008

Dr. Russell Read
Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Supplemental Income Plans Annual Review

Dear Russell,

You requested Wilshire's opinion with respect to Supplemental Income Plans as a part of Staff's annual review of the Plans. Wilshire believes that Staff has made significant improvement to the investment line up over the past year and is continuing to find new ways to provide cost effective and efficient investment solutions to the various Plans' participants. While the marketing and communication efforts that Staff has put in place and enhanced are important to the growth of the Supplemental Income Plans and to the success of the participants, the underlying investment line up is critical.

Recommendation

Wilshire recommends that the Investment Committee continue to support the growth and improvement of the Supplemental Income Plans and the strategies that Staff is employing to achieve the goals of the Supplemental Income Plans.

Background and Supporting Information

Over the past year, Staff has reworked the investment line up in the Supplemental Income Plans, making greater use of CalPERS' Investment Staff's expertise and the cost advantages of tapping in-house talent and leveraging off of CalPERS existing relationships with outside money managers. New CalPERS-managed offerings in the 457 plan include the Total Return Bond fund, the TIPS fund, the SMID Equity Index fund and the International Index fund. Additionally, an active large cap value fund (managed by Alliance Bernstein) and an active large cap growth fund (managed by Turner Investment Partners) were added, building off of existing relationships with these managers. Staff and Wilshire recently concluded two searches for active SMID growth and active SMID value mandates that will be added to the fund line up in short order. Similar improvements were made to the other Supplemental Income Plans' investment line ups as well.

In addition to improving the investment line up, Staff reduced the asset management fees that are charged to the participants by about 10 basis points. So, participants can now

take advantage of the improved investment line up with lower costs – clearly meeting two of the Supplemental Income Plans’ strategic goals.

Planned changes to the investment line up include CalPERS-managed target retirement date funds and risk-based investment funds. An outside consultant has been engaged to assist Staff in building the target allocations for each fund and the asset allocation “glide paths” for the target retirement date funds. Wilshire will work with Staff to review these targets and will opine to the Investment Committee as to the appropriateness of the allocations and glide paths.

Staff has also worked to improve the communication with participants, both in terms of content and accessibility. Effective and timely communication is important to the success of the Supplemental Income Plans, but, more importantly, is critical to the success of the participants’ retirement and investment planning. We believe the new measures, including web access and additional customer service representatives, will meaningfully improve how participants interact with the Supplemental Income Plans.

Conclusion

Wilshire has worked with Staff over the past year on many of the improvements that have been made to the Supplemental Income Plans, ranging from policy to manager selection and overall investment line up positioning. Staff is continually working to improve the Supplemental Income Plans, so that CalPERS’ members and participants will have another effective tool in managing their financial futures.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in black ink, appearing to read "Ann J. Smith". The signature is fluid and cursive, with the first name "Ann" and last name "Smith" clearly distinguishable.